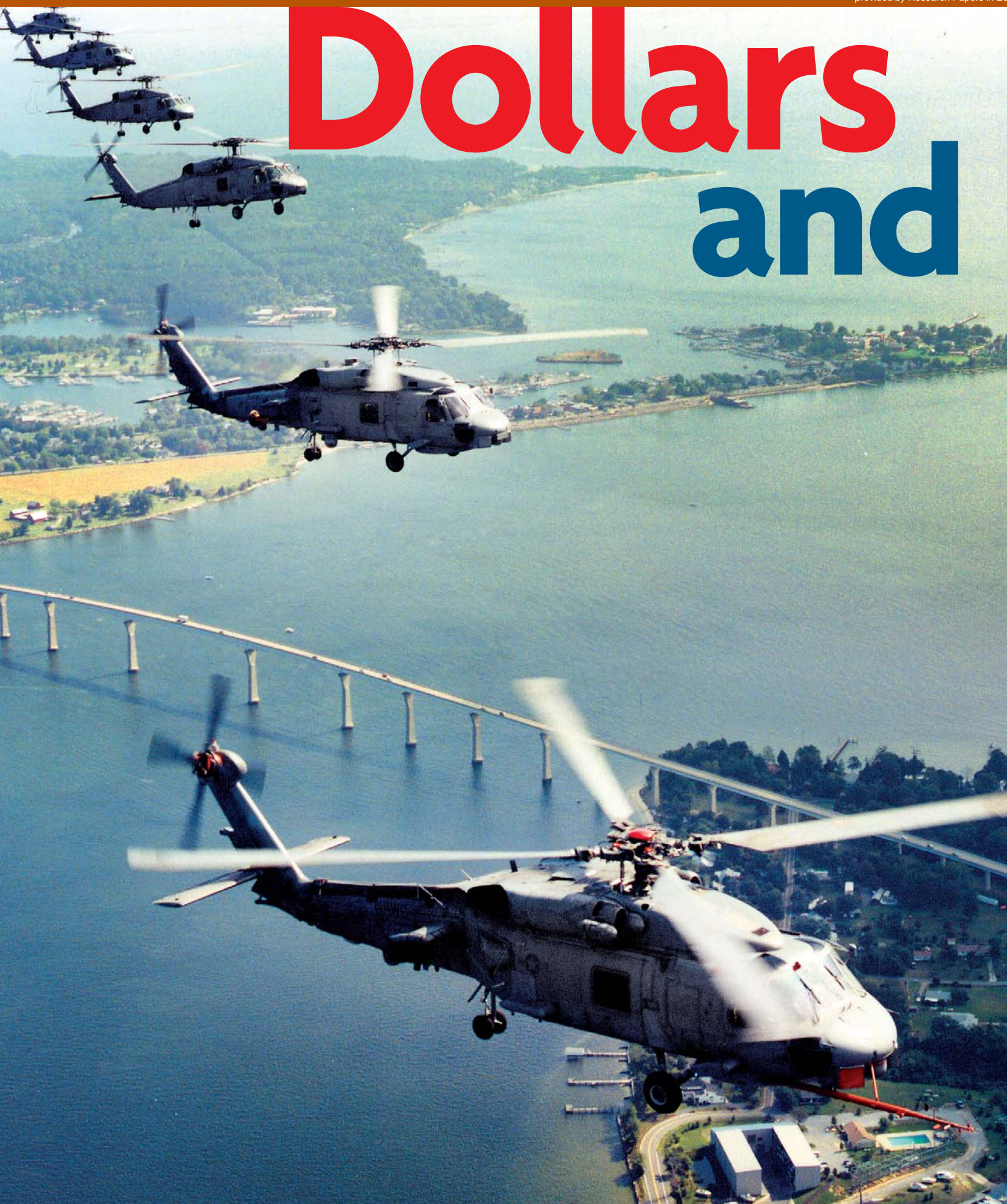


Dollars and



*A Closer Look at How
Military Spending Affects
Fifth District Communities
in Times of War and Peace*

Defense

BY CHARLES GERENA

On a sunny yet brisk Wednesday in Virginia Beach, Va., the lunchtime rush hits Lynnhaven Mall. It seems busy for the middle of a workday, with the usual mix of young mothers, teenagers, and seniors eating at the food court or window-shopping.

But business is slower than usual according to one of the mall's vendors. A big chunk of the usual crowd is missing—the men and women stationed at Naval Air Station Oceana about a mile away. Approximately three-quarters of Oceana's squadrons were deployed to the Middle East at the start of Operation Iraqi Freedom. That's roughly 3,400 personnel, or one-third of Oceana's military population.

During times of war when countless families are without their dads or moms, it's easy to see the role that military installations have within communities in the Fifth District. But it's important to step back and look at the peacetime effects as well. A hefty amount of payroll and procurement dollars steadily flows

SH-60 Sea Hawk helicopters from one of Naval Air Station Patuxent River's test squadrons fly in formation near the mouth of the river. NAS Patuxent River accounts for one-third of the jobs in St. Mary's County, Md.

from the Pentagon into the Fifth District — \$44.5 billion in fiscal year 2001 alone. How those dollars are spent — and the economic activity that they generate — can differ significantly from community to community.

The Fifth District's Defense Establishment

The armed forces have amassed a significant physical presence throughout the South and West. In the Fifth District alone, installations in Virginia, Maryland, and the Carolinas house 398,500 military and civilian personnel, or one-quarter of the national total. (See map and table on p. 14.)

Economists offer several possible explanations for the Pentagon's regional preferences. One reason is that military operations are land intensive and the South had plenty of territory ripe for development. "Army bases tend to be out in fairly isolated areas. When you are firing tanks or artillery, that doesn't make for very good neighbors," explains Lt. Col. Michael Meese, an economics professor at the U.S. Military Academy at West Point.

The Air Force and Navy also needed a significant amount of land. In addition, they found Southern states attractive for

their coastlines, which provide good launch pads for air and sea operations.

Yet not every state in the South or the West is saturated with military installations. That's where politics have made the difference since World War II. Southern congressmen like retired South Carolina statesman Strom Thurmond "had a great deal of power in Washington," says Albert Parish Jr., director of the Center for Economic Forecasting at Charleston Southern University. Other senior lawmakers like Sen. Fritz Hollings of South Carolina and Sen. John Warner of Virginia have used their clout to encourage the location of bases in their home states.

Political influence also has steered a lot of the military's primary contracts to the Fifth District. Firms in southern Maryland, Northern Virginia, and the District of Columbia — all of which are close to key decisionmakers on Capitol Hill and at the Pentagon in Arlington, Va. — capture the lion's share of procurement dollars in the Fifth District. These states and D.C. garnered \$25.1 billion in primary contracts for fiscal year 2001, while companies in North Carolina, South Carolina, and West Virginia accounted for another \$2.7 billion.

There are other reasons why so many primary contracts are filled in the region. "One reason for the concentration of defense spending is the change in the nature of defense production," wrote Robert Atkinson in a 1993 journal article. "Since World War

II, defense procurement has focused less and less on conventional military products [like trucks and rifles] and more on aerospace and electronics products." Manufacturers of the latter products began moving from the Midwest because they felt neglected by

local governments, adds David Gold, an economics professor at New School University in New York City who studies military spending. Communities chose to focus on their traditional industries like auto manufacturing.

At the same time, rural communities in the South and West needed to replace their lagging agricultural sector. Local governments actively recruited large manufacturers, including defense contractors.

"Defense contractors moved to [these regions] because they were attracted there and the governments wanted growing industry," explains Gold. "A lot of places...attracted these companies with subsidies, tax relief, and a nonunionized labor force."

Tracking Defense Dollars on the Economic Radar

Since the military established its foothold in Fifth District communities, it has added an interesting variable to local and regional economies.

In cities and counties where a military installation accounts for the majority of economic activity, employment and income levels are subject to wide swings. "The smaller the initial community, the greater the influence that a major military installation will have," notes Dick Brockett, associate director for economic development at East Carolina University's Regional Development Institute. This is similar to the impact of a large manufacturing plant in a small town.

Naval Air Station Patuxent River, which accounts for one-third of the jobs in St. Mary's County, Md., illustrates this phenomenon. When the Navy consolidated its flight testing and development work at Patuxent River during the 1990s, numerous high-tech firms moved to this waterfront community to provide support services. This spurred the development of office space near the facility and prompted the county to revise its transportation planning. In addition, the influx of technical jobs boosted the county's median household income.

Havelock in eastern North Carolina could see similar changes in its economy if the Pentagon decides to house some

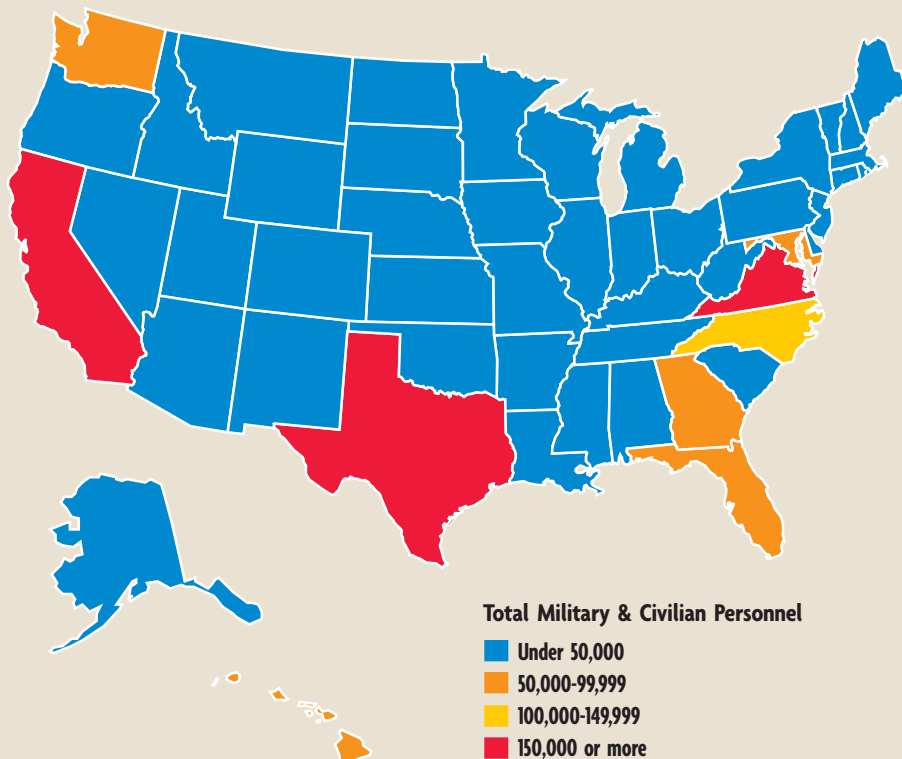
The Military's National Footprint

In the fiscal year ending Sept. 30, 2001, the states with the most active duty military and civilian personnel were in the South and West. The Fifth District alone was home to more than 398,500 personnel, most of whom were stationed in Virginia and North Carolina.

| Rank | State | Military Personnel | Civilian Personnel | Total Personnel | % of U.S. Total |
|------|----------------------|--------------------|--------------------|-----------------|-----------------|
| 1 | California | 107,452 | 58,378 | 165,830 | 10.2 |
| 2 | Virginia | 80,613 | 76,246 | 156,859 | 9.7 |
| 3 | Texas | 113,865 | 37,511 | 151,376 | 9.4 |
| 4 | North Carolina | 85,584 | 16,441 | 102,025 | 6.3 |
| 5 | Georgia | 62,013 | 31,169 | 93,182 | 5.8 |
| 6 | Florida | 49,029 | 26,539 | 75,568 | 4.7 |
| 7 | Maryland | 29,296 | 31,818 | 61,114 | 3.8 |
| 8 | Washington | 31,833 | 22,511 | 54,344 | 3.4 |
| 9 | Hawaii | 34,958 | 16,699 | 51,657 | 3.2 |
| 10 | South Carolina | 38,552 | 9,349 | 47,901 | 3.0 |
| 20 | District of Columbia | 13,104 | 15,230 | 28,334 | 1.8 |
| 48 | West Virginia | 504 | 1,777 | 2,281 | 0.1 |

NOTE: Personnel on temporary duty may be reported at their assigned locations, not their home stations.

SOURCE: Department of Defense, Directorate for Information Operations and Reports



Life in the Civilian World

Like many retirees from the armed forces, Robert Garman likes to get together with his former comrades. They frequent the officer's club at Fort Bragg near Fayetteville, N.C., attend church services on base, and support each other during times of need. "It's like an extended family," says the 71-year-old lieutenant colonel.

The bond between former members of the military isn't the only thing that distinguishes them in the civilian world. These differences have interesting economic implications for the communities in which they reside.

Like civilian workers, military personnel look for a place to retire where the climate is pleasant, the cost of living is affordable, and recreational opportunities are available. But unlike most civilians, they tend to settle close to their former employer, Uncle Sam. Virginia and North Carolina, two states that rank among the top five states for defense personnel, are also among the top 10 states for military retirees (see chart).

Usually, retirees live within driving distance of where they were last stationed because they know the community and want stability after years of moving from place to place. They may consider relocating, as long as it's an attractive locale near another base.

"Military retirees are closely influenced by accessibility to a major military installation," noted Mark Fagan in a September 1992 report on this demographic group in Alabama, where Fagan heads the department of sociology and social work at Jacksonville State University. "Retirees and their dependents retain many of the benefits of active duty personnel." These include access to discounted goods at military exchanges and commissaries and free or reduced-cost health care at bases with hospitals or clinics.

Another thing that military people look for when they retire is employment opportunities.

They are relatively young, usually in their 40s according to Fagan's research, so they are very likely to pursue a second career.

When they re-enter the work force, military retirees bring years of work experience and specialized skills, much of which have civilian value. "They come from a big bureaucracy, so they can fit into larger organizations very well," says Fagan. "They also are familiar with organizational behavior." As a result, "they increase the labor skills of the area where they retire."

High-ranking military retirees may leverage

these assets to get a job with the Department of Defense and other federal agencies, join a defense contractor, or start their own business. Noncommissioned retirees can usually find a comparable job in industries like health care and electronics. "Because of their prior experience and the work ethic that they developed, military retirees typically get employed easily," adds Fagan.

Despite the employability of military retirees, studies indicate that retirees tend to earn lower pay than civilians with similar skills. Why this is the case is an open question among economists.

Some suggest that there are some combat positions that don't have a direct civilian counterpart, such as ordnance experts. But economist David Loughran at RAND, a think tank based in Santa Monica, Calif., believes that the difficulties of transferring certain skills and experience learned in the military isn't the whole story.

Loughran points to another potential factor — military pensions, which can be as high as 75 percent of base pay for 30 years of service. Given this income, as well as continued access to base amenities, retirees can afford to pursue lifelong dreams or interests. "Maybe what they are trying to maximize is not their earnings," surmises Loughran, but other things in their lives that are more important.

Regardless, military retirees close the income gap with civilians once their pension and allowances are combined with their salary. This buying power adds to a community's existing base of retirees, although not all of their money goes into local economies. "By and large, I buy at the commissary," says Robert Garman, echoing the buying habits of other veterans. "I pick up some stuff in between trips. If the milk runs out, I stop at the store."

—CHARLES GERENA

Homes of the Brave

Veterans of the armed forces tend to settle in states with a significant military presence, as shown in the figures below from fiscal year 2002. The one exception is the District of Columbia, which ranks in the top half of states for military personnel but finished last in terms of its retiree population.

| Rank | State | Retiree Population |
|------|----------------------|--------------------|
| 1 | California | 188,642 |
| 2 | Florida | 182,540 |
| 3 | Texas | 173,932 |
| 4 | Virginia | 127,784 |
| 5 | Georgia | 79,244 |
| 6 | North Carolina | 73,289 |
| 7 | Washington | 67,377 |
| 8 | Arizona | 50,022 |
| 9 | South Carolina | 50,009 |
| 10 | Alabama | 49,610 |
| 11 | Maryland | 46,262 |
| 41 | West Virginia | 9,722 |
| 51 | District of Columbia | 3,185 |

SOURCE: Department of Defense, Office of the Actuary

of its new Super Hornet squadrons at Marine Corps Air Station Cherry Point. In the meantime, however, the absence of 3,300 Marines and support personnel deployed in the Middle East earlier this year added to the economic pain of businesses in this city of 22,000 people.

In communities with a more diverse economy, growth in defense-related activity can help counter downturns in nondefense activity. For example, the

188,000 naval personnel and their family members living in the Hampton Roads region of southeastern Virginia helped the regional economy weather nationwide recessions during the early 1980s.

"We regard ourselves as having a very stable economy because we have a baseline of [defense] spending, and the volatility in that spending tends to not reinforce the business cycle," notes John Whaley, deputy executive direc-

tor of economics at the Hampton Roads Planning District Commission. "Occasionally, these cycles will come in sync and we'll suffer from downturns in both," such as in 1991 when Hampton Roads' recession was worsened when tens of thousands of troops were deployed for Operation Desert Storm. "But usually one of those cycles tends to offset the other one."

The level of diversity in a local

Troubles on the Financial Front

When soldiers are shipped out to war, sometimes with only a few days' notice, settling their financial affairs is probably the last thing on their minds. As a result, a checkbook and a pile of bills can suddenly land in a military spouse's lap.

That's what Stephanie Moore has seen from behind the counter of Express Check Advance, a payday lender near Naval Air Station Oceana in Virginia Beach, Va. Since the Middle East deployments began last March, Moore says the wives of Oceana personnel have been coming for advances on their husbands' paychecks.

Deployments are just one of the challenges that can compel military families to turn to payday lenders, pawnshops, and other high-cost sources of funds.



CHARLES GERENA/PIRE OF RICHMOND

One-quarter of the people who sell their belongings to Cash Converters are military personnel.

A significant number of soldiers occasionally stumble into a financial ditch, according to a July 2002 survey of 11,000 active duty personnel. About 33 percent of respondents of various ranks admitted they had bounced two or more checks, had overdue bills, or lost their utility services during the last 12 months. Among the privates surveyed, the percentage in financial distress climbs to 46 percent.

Poor military pay is frequently blamed for these difficulties. Congress has approved wage increases several times, including a 4.1 percent minimum increase for 2003 and a 5.5 to 6.5 percent raise for certain mid-level personnel, but soldiers still feel underpaid. About 42 percent weren't happy with their compensation, which includes base pay, allowances, and bonuses. (A private on active duty for a

minimum of four months makes a base salary of \$13,800 a year, while a sergeant with two years of experience earns \$19,500 annually.)

Pay levels aren't the only problem. "If soldiers don't know how to manage their money, no matter how much money you give them they are not going to manage it correctly," says Lillie Cannon of the National Military Family Association Inc., a nonprofit group that provides a variety of services for soldiers and their dependents.

In addition, the uncertainties of life in the armed forces add to the financial stresses on military families. There are married couples and single parents who "deal with all of the [financial matters] that you and I do, and they are doing it in an environment over which they have much less control," describes Roderick Mitchell, president of the Pentagon Federal Credit Union Foundation, a financial literacy organization.

For example, Mitchell says that single parents struggle to find daycare for their children that works with their turbulent schedules. Also, "enlisted people may have a change in duty station five or six times during their career," and each move takes a financial and emotional toll on their families.

At the same time, military personnel have financial avenues available to them that civilians don't have. These include pay advances to cover relocation costs, low- and no-interest loans from relief agencies run by veterans and volunteers, and access to credit from military credit unions.

But these avenues have their limits — a pay advance is available only once, relief agencies have guidelines for awarding loans and have limited funds, and credit unions have a fiduciary responsibility to turn down borrowers with poor financial histories.

Once they reach the end of their rope, soldiers find themselves among the many consumers who turn to payday loans. "They are young, on moderate incomes, and have moderate education levels," describes John Caskey, an economist at Swarthmore College who studies consumer finance. "Payday lenders are not looking for the desperately poor, but moderate-income people with jobs who are financially stressed."

Payday lenders offer privacy for those who worry about their superiors learning about their financial problems, which can count

against them for a promotion. They also offer convenience, since they are often near a military installation.

This brings up a point of controversy. Are payday lenders preying on the misfortunes of the military? The clustering of lenders around bases would suggest that — 10 storefronts offer cash advances within a five-mile radius of Oceana.

But Vicki Woodward of the Community Financial Services Association of America, a trade group for payday lenders, argues that if the military were such an attractive market, every lender would locate a majority of its stores near a base. This is not the case with Advance America, a founding member of the group. As of April 2003, only 17 of the company's 80 Virginia stores were located in Hampton Roads, the home for 188,000 naval personnel.

Also, less than 1 percent of Advance America's total customers are military personnel, according to company records. Its share of military customers goes up in places with more bases — 1.5 percent in Virginia Beach and 10 percent in Hampton Roads. But in both cases these percentages are smaller than the ratio of each area's military population to its total labor force.

More likely, payday lenders near bases are tapping into the broader community that includes both soldiers and civilians. "The military [presence] was not a consideration; it was the overall population," says Rob Godbey, owner of seven Cash Express locations in Hampton Roads. "We have some military that come in, but not many. They are not our focus."

On the other hand, Tim Oldfield readily admits that his company, Cash Converters United LC, opened all five of its Virginia stores in Hampton Roads because of the region's military presence. "A base's population is transient. People are coming in and out all the time," says Oldfield, who also oversees a store near Fort Bragg in North Carolina. When soldiers are reassigned or deployed at the last minute, they can get quick cash for their belongings from Cash Converters instead of paying movers or renting storage space. Also, the company's selection of second-hand goods provides newly assigned personnel with an inexpensive way to furnish their residences.

—CHARLES GERENA



The commissary is an attractive alternative for military shoppers in Virginia Beach, Va.

economy is just one factor that determines the effect of military installations. "What they do [determines] the kind of people and number of people they hire," says Barney Warf, professor of geography at Florida State University. "There is no such thing as a typical installation."

Naval ports, air stations, and other personnel-driven bases focus on training and deploying large numbers of military personnel, mostly enlisted men and women. A common view is that enlisted personnel aren't paid well, therefore their income affects a community less than their civilian counterparts in the work force.

Still, a 1999 Congressional Budget Office study found that "a new recruit's pay is greater than the pay received by roughly three-quarters of all 19-year-old male civilian workers with only a high school degree."

More specifically, the annual income of a private with one year of service — which includes base pay and allowances for food and housing — beats the average annual wage of several counties in the Fifth District with personnel-driven bases. They include Craven County in North Carolina, Lee County in South Carolina, and Prince George County in Virginia.

The inflow and outflow of enlisted personnel at a base is usually balanced. But when large-scale troop deployments occur, such as those preceding Operation Iraqi Freedom, the result can be a lot fewer people around to spend money. Some families also may move in with out-of-town relatives for emotional and financial support.

The opposite happens at bases that serve a support role during deployments — their populations temporarily increase. Charleston Air Force Base in South Carolina added personnel earlier this year to operate the C-17 cargo planes that transported supplies, equipment, and personnel to the Middle East.

The new spending that is created is fleeting, of course, and not all of it occurs locally. "The temporary personnel spend money at the hotel, eat out some, and buy gas for their car," says Parish. "Still, the majority of their salary goes back home."

Things are different at military installations with a service orientation. Bases that test new weapons, have research and development facilities, and perform back-office operations require a core group of civilian and military professionals. This group usually isn't deployed with troops, providing a stable work force of well-paid professionals.

Parish points to the Space and Naval Warfare Systems Center in Charleston. The systems integration facility pays its 1,200 workers two and a quarter times more than the city's average wage, which tends to be low due to the preponderance of tourism and other service-related employment.

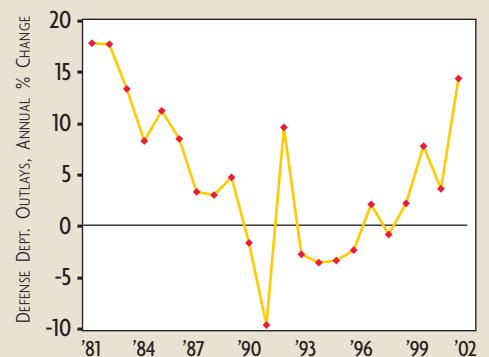
Wages vs. Weapons

Regardless of the military installation in question, its payroll directly affects a local economy more than its procurement dollars. That's because soldiers and their dependents tend to make their purchases within the community, while procurement dollars tend to leak out of the community and into the regional or national economy.

Military families buy a variety of services locally, from electricity and other utilities to health care and recreation. They are also encouraged to shop at local retailers. However, how much they spend in the civilian economy can be influenced by where they live.

The Big Guns

Annual growth in defense spending in fiscal year 2002 reached its highest peak in 20 years, as measured in real dollars. This put the military's budget over the \$300 billion mark. However, where and how the Pentagon aimed that fiscal ammunition determined the effect on Fifth District communities with a significant military presence.



SOURCE: Budget of the United States Government, Historical Tables

If a military installation provides living quarters for families, their spending may be less likely to reach civilian retailers. Commissaries and military exchanges compete well against grocers and shopping centers by being convenient and, in some cases, offering better prices. Also, private companies like Bank of America and McDonald's operate branches on bases, although some of

their sales reach the civilian economy via the salaries paid to local workers and suppliers.

If military families must live off base, however, more of their retail spending will likely occur in the surrounding community. For example, Naval Air Station Oceana only has 25 housing units for soldiers' families, so most of them reside in nearby subdivisions, according to Public Affairs Officer Troy Snead. They don't exclu-

the commissary," notes Snead.

In contrast, a personnel-driven base spends most of its money on goods supplied under national procurement contracts. These include office supplies that are needed in large quantities, and specialized parts and equipment, neither of which can be bought at the neighborhood Wal-Mart. For instance, Hampton Roads has several major shipbuilding companies that service the Navy, but Whaley says these firms and

the base's F/A-18 squadrons.

But most basic services will likely continue to be awarded through national contracts, such as transportation. "All branches of the military ... rely heavily upon shipping companies and, to a lesser extent, airlines to transport military material," noted Warf in a 1993 journal article. "Trucking companies frequently contract with the Army to haul goods overland."

Military installations that perform research and systems integration have a need for technical expertise, creating a market that may attract high-tech firms to a community. That is what Naval Air Station Patuxent River did for St. Mary's County. It's also what happened in the Charleston, S.C., area, where defense contractors employ 4,500 people to support the Space and Warfare Systems Center.

But such an agglomeration of industry requires time and support to form, so service-oriented installations often look elsewhere to fill their needs in the meantime. "The more knowledge intensive the activity and the more it involves sophisticated equipment, the more likely [it will be] contracted out of the community," adds New School's Gold.

In general, contract dollars tend to spread out widely. For example, Arlington, Va.-based CACI International Inc. utilizes subcontractors throughout the Northern Virginia region to serve a prime contract with the Naval Sea Systems Command. In addition, the company uses subcontractors from California, Indiana, Connecticut, Oklahoma, and several other states.

The Old Guns and Butter Debate

Whether they come from military installations or primary contracts, defense dollars undoubtedly generate employment and income in communities throughout the Fifth District and the nation. But in order for this to happen, capital and other resources must be diverted from civilian to defense-related production.

Such a shift isn't inherently good or bad. As Gold explains, that kind of trade-off occurs whenever capital is invested in a new economic activity. "If

In the Navy

Each summer, hundreds of young adults arrive in Annapolis, Md. Their destination is the U.S. Naval Academy, where these "plebes" will spend four years preparing for a career in the Navy or Marine Corps. While the Academy shares some of the traits of a college or university, it is not your typical institution of higher learning.

For the fiscal year ended Sept. 30, 2001, the Naval Academy spent \$304 million. Payroll accounted for about two-thirds of that total, while purchases of goods and services accounted for the remainder. These numbers may sound impressive, but economist David Gold of New School University in New York City believes that military academies in general are not as economically involved in the community as other post-secondary schools.

For example, while college students often hustle to find a job, midshipmen at the Naval Academy are under less pressure to work thanks to the generosity of Uncle Sam. Tuition and room and board are free, basic medical care is available on campus, and students have access to discounted goods at military commissaries and exchanges.

Further, midshipmen have fewer opportunities to open their wallets outside of the Academy. They spend most of their day on campus, either in the classroom or on the training field. They get holidays and short breaks called liberties, but earn additional time

off only with seniority and good performance.

Once midshipmen venture into the community, they usually have less money to spend than a typical college student does. They receive a stipend of \$764 a month, but are left with only \$75 to \$100 a month in their first year — uniforms, books, and other service charges are deducted first. In contrast, a recent poll by Harris Interactive found that college students had \$287 in monthly discretionary income.

The Naval Academy does contribute to Annapolis' economy by procuring some of its goods and services locally. For example, it spent almost \$10 million on utilities and \$10.2 million on facilities maintenance in fiscal year 2001. King Hall, which serves meals to midshipmen, spent \$16.9 million, some of which went to salaries for civilian employees and food products from local vendors.

Another part of the Academy's local impact comes from tourism. More than 1.5 million visitors come to the Academy every year. Potential students, parents, and educators attend Academy Admissions Day and Candidate Visit Weekends, while tourists stop by the visitor center to learn about the Academy's history. One of the biggest draws is when the Navy's football team plays a home game — more than 30,000 fans attended four home games in fiscal year 2001.

—CHARLES GERENA

sively shop at the huge Navy Exchange Mall near the front gate or buy groceries at the commissary because of the abundance of retail options surrounding Oceana. "If you live a block away from a 7-11 and need a quart of milk, you aren't going to drive all the way to

the region's naval facilities do most of their procurement on a national level.

Bases purchase some services locally, such as building construction and maintenance. Oceana hired W. M. Jordan Co. in nearby Newport News to expand three structures that support



CHARLESTON AIR FORCE BASE

C-17 cargo planes from Charleston Air Force Base in South Carolina were used to fly 3,000 tons of cargo and 400 vehicles during Operation Iraqi Freedom.

you build an auto plant in South Carolina, people who were previously looking for employment in agriculture and small businesses will line up at the gates of the plant.”

The real issue is whether the economic stimulus of defense spending outweighs the lost value of the goods and services that would have been produced if that money went into the civilian economy. “We don’t know what would have happened had [defense] funds been invested ... in the infrastructure of our country or the development of an educational system,” concludes Warf. “The opportunity costs argument never arises in debates over military spending. No other category of federal spending is immediately off limits.”

Economic activity around a military installation tends to be similar to the ancillary businesses that any large, labor-intensive enterprise attracts. This includes retail stores, housing, and health care facilities.

In addition, installations generate some economic development that would not have occurred otherwise. Some hotels cater to the military, housing reservists who train at bases on weekends, military and civilian personnel on a temporary assignment who want to avoid signing long-term leases at apartment buildings, and families vis-

iting their relatives who are graduating from basic training.

However, military officials can actively discourage development near a base. Robert Beasley Jr., who has leased industrial property in Virginia Beach for the last 10 years, recalls when the Navy purchased deed restrictions on several large parcels around Oceana. It used these restrictions to limit development to small factories, warehouses, and distribution facilities.

Beasley says naval officials didn’t want offices, retail, or other high-density development that would put a lot of people on the flight path of Oceana’s aircraft. That way, injuries to civilians would be minimized in the event of an accident, plus it would temper complaints about jet noise.

A military installation also can unintentionally discourage industrial development, according to Parish at Charleston Southern. Large employers can perceive the base as a tough competitor for a community’s most adept workers.

Some economic development officials tout the potential for defense-related research and development to produce commercial spin-offs. While such spin-offs have occurred — everything from Teflon to the Internet has its origins in the military — the commercialization process isn’t easy. Some goods and services are produced for the military to meet precise specifications and often must be able to withstand extreme conditions, regardless of the

costs involved. In contrast, commercial goods and services need to be broadly useful and profitable to produce.

Ultimately, national defense must be judged for more than its economic effects in communities. Economists describe it as a classic public good. One person’s consumption doesn’t diminish someone else’s consumption, and no one can be excluded from consuming it. Therefore, a public good benefits everyone equally and at no cost to individuals. This is why companies don’t run armies — they couldn’t make a profit.

As new challenges lie ahead for this volatile, interconnected world, lawmakers and taxpayers must decide how they value national defense as a public good as well as an economic stimulus, and how much they are willing to sacrifice in return.

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